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Spending the tobacco settlement

By Al Cross, Director of the Institute for Rural Journalism and Community Issues

(Editor's note: Mr. Cross is based at the University of Kentucky, where he is an assistant professor of journalism and directs reporting projects by students, including one on the future of tobacco and tobacco-dependent communities, which provided some of the information for this article. Student work is posted on the Reports page of the Institute's Web site, www.RuralJournalism.org.)

No state has put more of its tobacco-settlement funds into agriculture -- half the tota l -- as Kentucky, the state with the most tobacco farmers. And farmers continue to be the focus of officials who hand out the money.

The $206 million invested so far in Kentucky agriculture has helped shake farmers' historic allegiance to tobacco, encouraged diversification and upgraded the state's cattle industry, the largest in the Eastern United States.

The state has put virtually none of the money into research and development of such agriculture-related industries as biotechnology, which has been a major focus of settlement spending in North Carolina, the top tobacco-producing state.

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Meanwhile, some Kentucky legislators have voiced concern that the state is spending the settlement money too loosely, and the head of the office that oversees the spending acknowledges that it needs a larger compliance staff.

That is the lay of the land as the Governor's Office of Agricultural Policy holds 13 meetings in all sections of Kentucky to discuss the future of the Agricultural Development Fund -- which gets half the money Kentucky receives from the national settlement with cigarette manufacturers.

When the legislature allocated the settlement money in 2000, there was heavy political pressure to put money directly into the pockets of farmers, who were going through a series of cuts in tobacco production quotas.

Former Gov. Brereton Jones proposed that much of the money be put into a trust fund to cover health costs of the state's uninsured, but that idea got nowhere. North Carolina took such a route, investing its settlement money and spending only the earnings.

Like North Carolina, Kentucky set aside half its settlement spending to help its farm economy, but is spending the money as it comes in, about $100 million a year.

A turf battle over who would control the money put most power in the hands of the new Agricultural Development Board, representing agriculture, business and other interests.

However, 35 percent of the money was allocated to counties based on their economic dependency on tobacco, and the spending priorities and immediate oversight at the county level were placed in the hands of local boards representing agricultural interests.

The Governor's Office of Agricultural Policy has statewide oversight and acts as staff to the state board.

Keith Rogers, executive director of the office since soon after Gov. Ernie Fletcher was inaugurated in late 2003, said in an interview that state unversities might have been interested in getting settlement money for research in agriculture or biotechnology, but kept quiet because they also wanted to see tobacco growers get direct help and didn't want to be seen as competing with them.

But with the end of federal quotas and price supports for tobacco in late 2004, and the resulting departure of many growers from the industry, tobacco appears to have lost much of its clout.

It has declined from its historic position as Kentucky's No. 1 agricultural product to fourth. In 2005, the legislature greatly increased the state cigarette tax and the Agricultural Development Board rejected a grant application from tobacco growers, saying that funding tobacco would run contrary to the board's goal of diversification.

Rogers said the state's initial strategy of immediate, direct payments to farmers was not just a tactical, political maneuver, but logical public policy “because it gave farmers an incentive to diversify, improve the quality of their livestock or invest in value-added processing of their products

“We had to have a change of attitude and mindset in the Kentucky farmer to ever move beyond tobacco,” and it has worked, Rogers said.

He said that when he started with the state, after working as a congressional aide and farmer, “I was shocked by the change I saw” in farmers' attitudes since 1997, the yearbefore the settlement and the first congressional votes on a buyout of quotas.

Not only did settlement money provide incentives, each of the county-level programs require farmers who get matching grants or forgivable loans to take training in the subject. Rogers said the programs -- diversification, storage, fencing, forage, cattle handling, cattle genetics and on-farm water supplies -- help about 12,000 farmers a year.

Some legislators have complained about local management of the programs, and said Rogers' office lacks the staff to properly audit the spending. Rogers agreed, and asked the legislature for more staff this year, but the request was denied.

Rogers said that auditors have found scattered instances of local groups not following rules for allocation of the money, but that he knows of only one legal action -- the indictment of a former agricultural extension agent and a farmer for defrauding a local group handling settlement funds in Clinton County. They pleaded guilty.

At least two other counties had problems following the rules, and in one, Casey, the local cattlemen's association will no longer get to handle the money, Rogers said, unless an upcoming audit shows it followed the rules this year.

The largest share of Kentucky's settlement money has gone to its cattle industry. Among the state model programs, which are funded at the county level, in which $96 million has been spent, cattle handling facilities and cattle genetics have received $19 and $12 million, respectively. The largest single category, forage, at $21 million, largely benefits cattle producers. So does livestock fencing, at $9 million, and on-farm water enhancement, at $1.2 million. Cattle producers also benefit from the storage program for hay, straw and commodities, which has spent $17 million.

At the state level, the Kentucky Beef Network, which helps farmers produce and market their cattle, has received more than $8.5 million. The largest outlays at the state level have been $23 million to the Kentucky Agricultural Finance Corp., which makes loans, and $9.3 million for an ethanol plant in Hopkinsville. The Kentucky Horticulture Council has received $6.2 million.

Concerned that it was not getting enough applications from 19 tobacco-dependent counties in northeastern Kentucky, the board gave the University of Kentucky almost $1.3 million for an Entrepreneurial Coaches Institute to develop entrepreneurship in the area.

The only biotechnology grant in Kentucky has been $255,000 to ApoImmune, an early-stage biopharmaceutical company. Rogers said last winter that the board might add research to its new strategic plan, but that has not happened.

Rogers and his predecessor, John-Mark Hack, said North Carolina was much better prepared to move in the biotechnology area because it already had research facilities, such as those at Research Triangle Park, and tobacco was a smaller part of its agricultural economy.

Hack also cited Kentuckians' desire “to see money in farmers' hands,” organized resistance to biotechnology, and an Agricultural Development Board that has changed membership and become “more dominated by people coming from a traditional farm background and less from an agribusiness background.”

The future direction of the board, and its spending of the largest discretionary pot of money in the state executive branch, will be guided by comments at the regional meetings.

This is a unique opportunity for people interested in the future of Kentucky's agricultural economy, and the state's economy as a whole, to speak up about the investment of a huge resource that can make a difference in the quality of life in the Commonwealth.

SCHEDULE OF MEETINGS

(all times local)

June 22 (already held): Meetings in Hawesville and Elizabethtown.

June 26, 10 a.m.-noon: Pendleton County Extension Office, Falmouth.

June 26, 7-9 p.m.: Mason County Extension Office, Maysville.

July 10, 10 a.m-noon: Clark County Extension Office, Winchester.

July 12, 7-9 p.m.: Breathitt County Extension Office, Jackson.

July 13, 10 a.m.-noon: Laurel County Extension Office, London.

July 19: 10 a.m.-noon: Anderson-Dean Park, Harrodsburg.

July 28, 10 a.m.-noon: Shelby County Extension Office, Shelbyville.

Aug. 2, 7-9 p.m.: Graves County Extension Office, Mayfield.

Aug. 3, 10 a.m.-noon: Christian County Extension Office, Hopkinsville.

Aug.10, 10 a.m.-noon: Adair County Extension Office, Columbia.

Aug.10, 7-9 p.m.: Metcalfe County Extension Office, Edmonton